



# Press conference of the CNB Bank Board

## 2nd Situation Report on Economic and Monetary Developments

26 March 2015

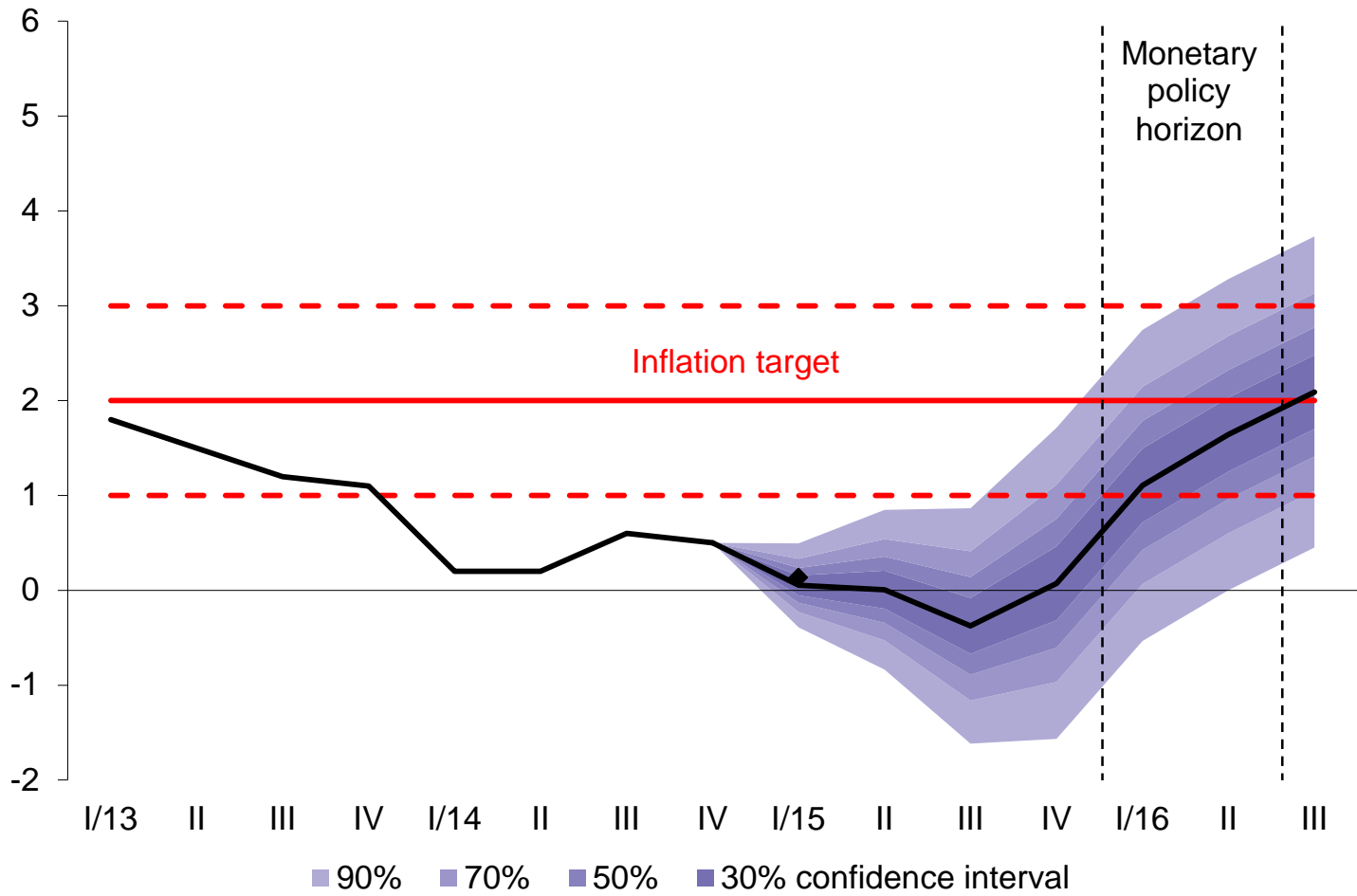
# The monetary policy decision and the stance of the CNB

- At the close of the meeting the Board decided unanimously to leave interest rates unchanged. The two-week repo rate remains at 0.05%, the discount rate at 0.05% and the Lombard rate at 0.25%.
- The Board also decided to continue using the exchange rate as an additional instrument for easing the monetary conditions and confirmed the CNB's commitment to intervene on the FX market if needed to weaken the koruna so that the exchange rate of the koruna against the euro is kept close to CZK 27. In line with this, the CNB still stands ready to intervene automatically, i.e. without the need for an additional decision of the Board, and without any time or volume limits.
- The asymmetric nature of this exchange rate commitment, i.e. the willingness only to intervene against appreciation of the koruna below the announced level, is unchanged.

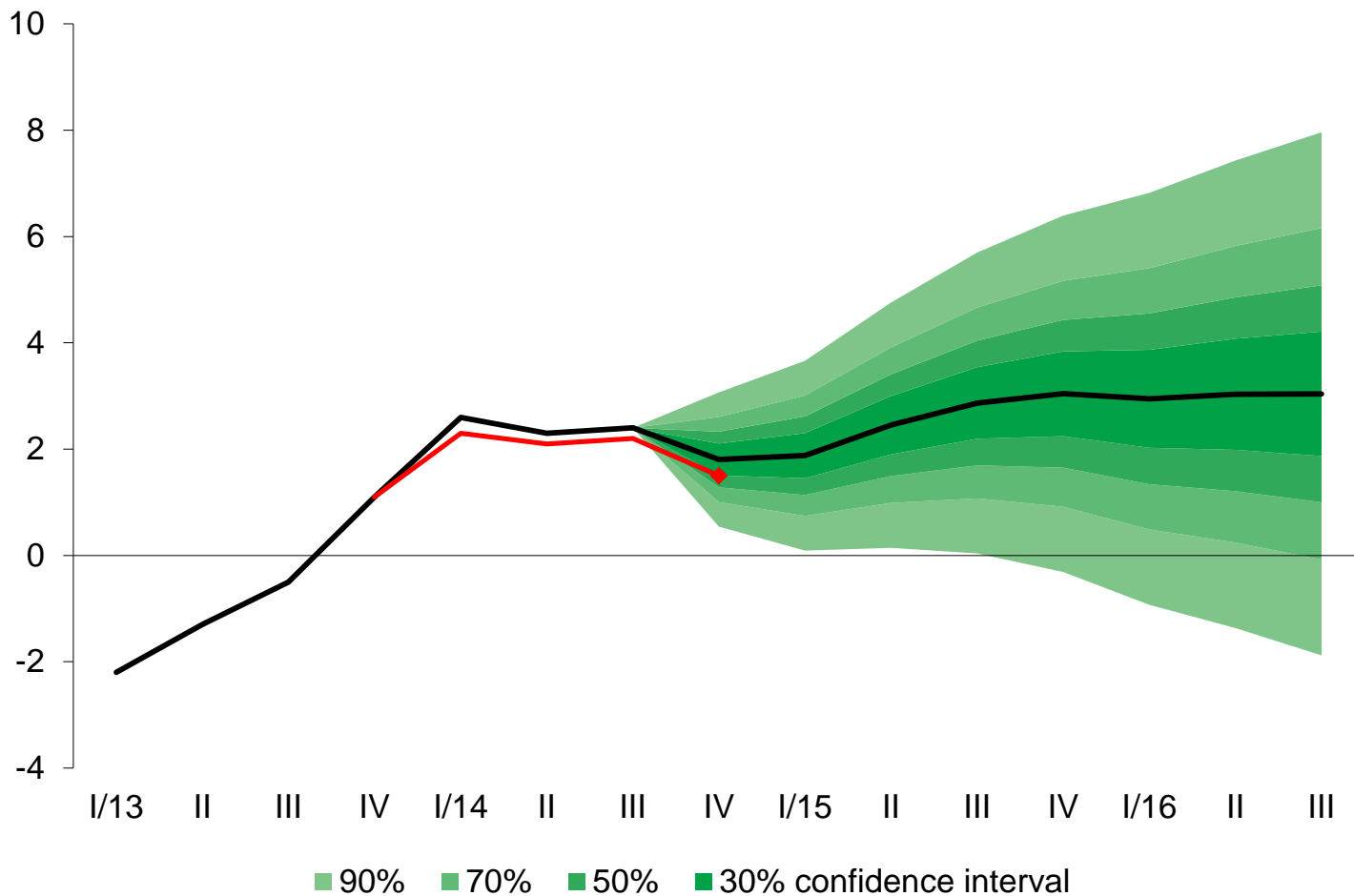
# Reasons for the decision in the context of the current forecast

- The forecast expects market interest rates to be flat at their current very low level and the koruna exchange rate to be used as a monetary policy instrument until the end of 2016.
- The subsequent return to conventional monetary policy will not imply appreciation of the exchange rate to the level recorded before the CNB started intervening.
- The risks to the forecast are assessed as being anti-inflationary.
- In this situation the Bank Board repeated that the CNB would not discontinue the use of the exchange rate as a monetary policy instrument before 2016 H2.
- The CNB remains ready to move the level of the exchange rate commitment if there were to be a long-term increase in deflation pressures capable of causing a slump in domestic demand, renewed risks of deflation in the Czech economy and a systematic decrease in inflation expectations.

# The inflation forecast and expected outcome in 2015 Q1

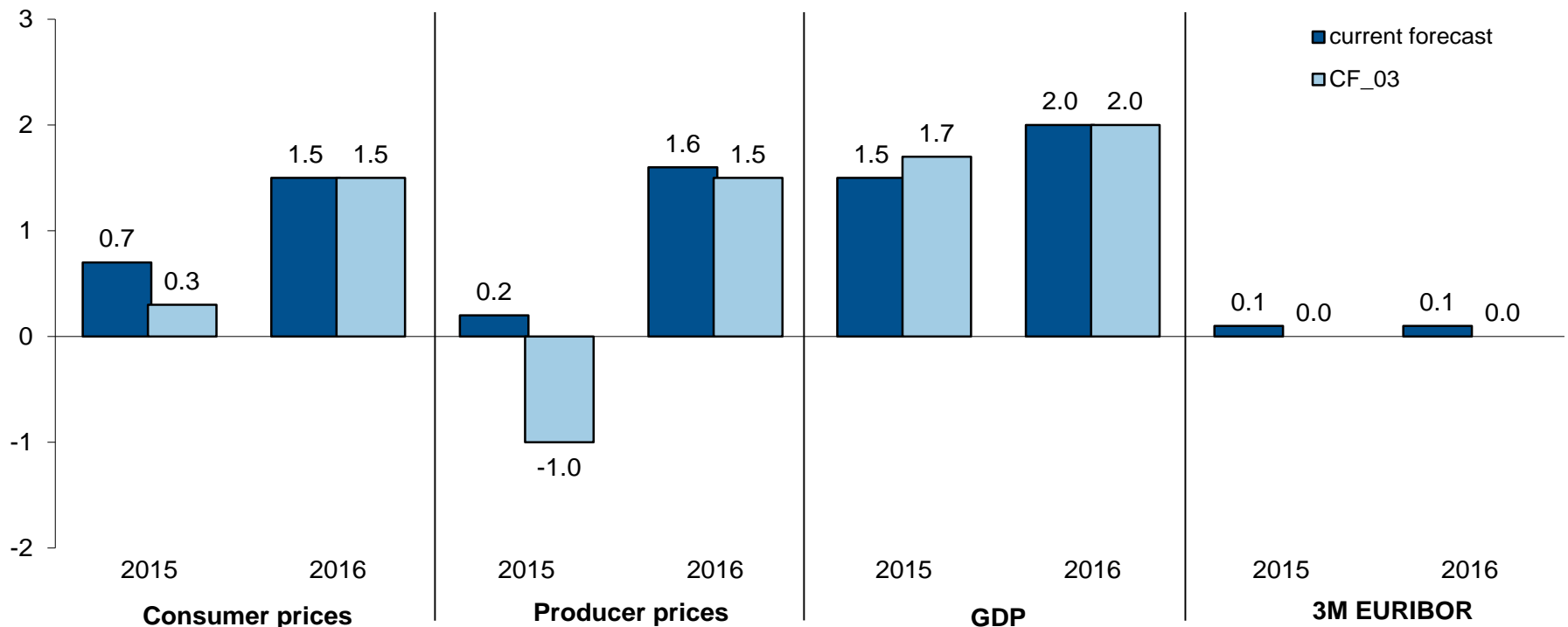


# The GDP forecast and outcome in 2014 Q4



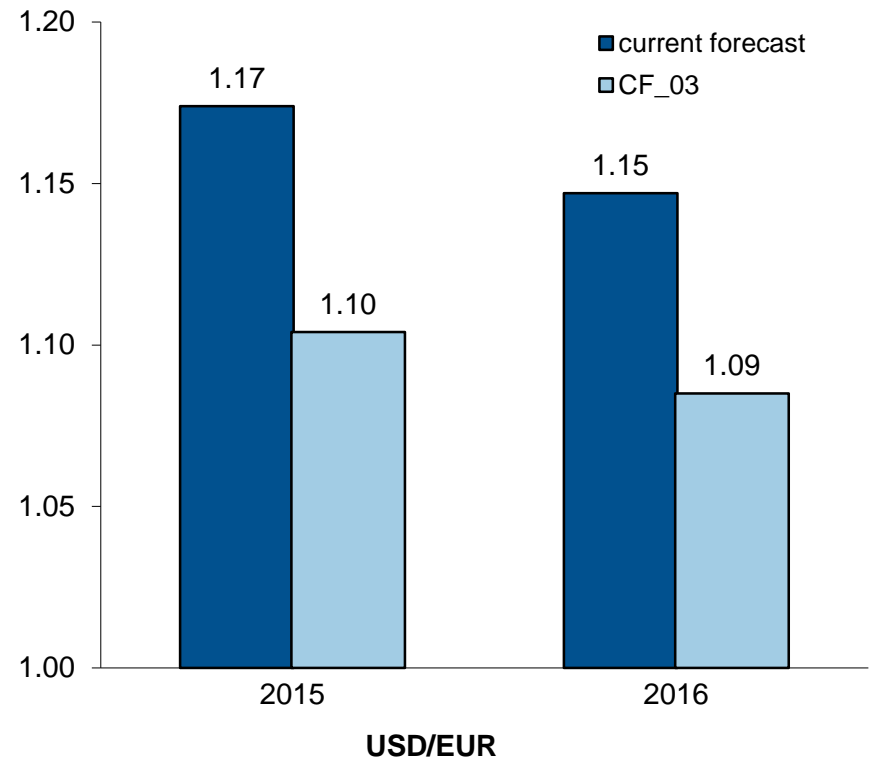
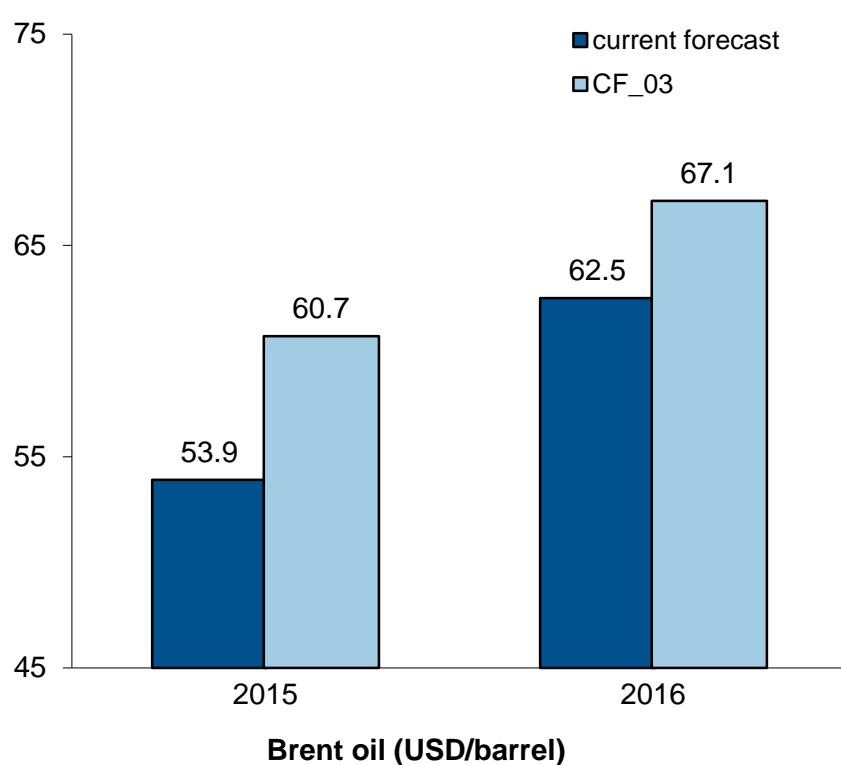
# The external environment (i)

Comparison between the current forecast assumptions and the March outlook based on Consensus Forecasts survey and market expectations for the effective euro area



# The external environment (ii)

Comparison between the current forecast assumptions and the March outlook based on Consensus Forecasts survey and market expectations

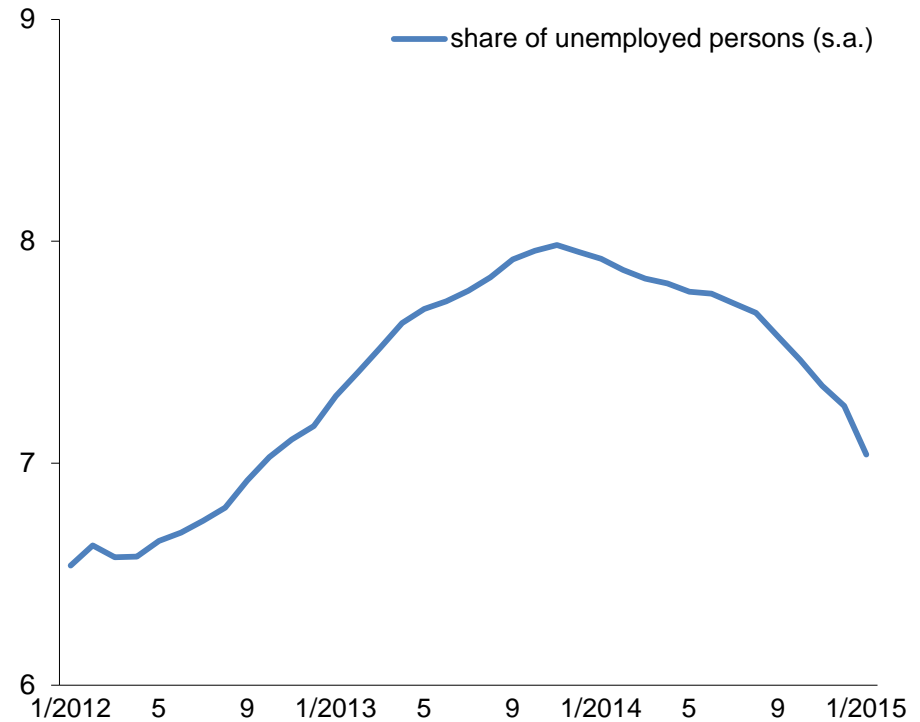


# The labour market

(Annual changes in %)



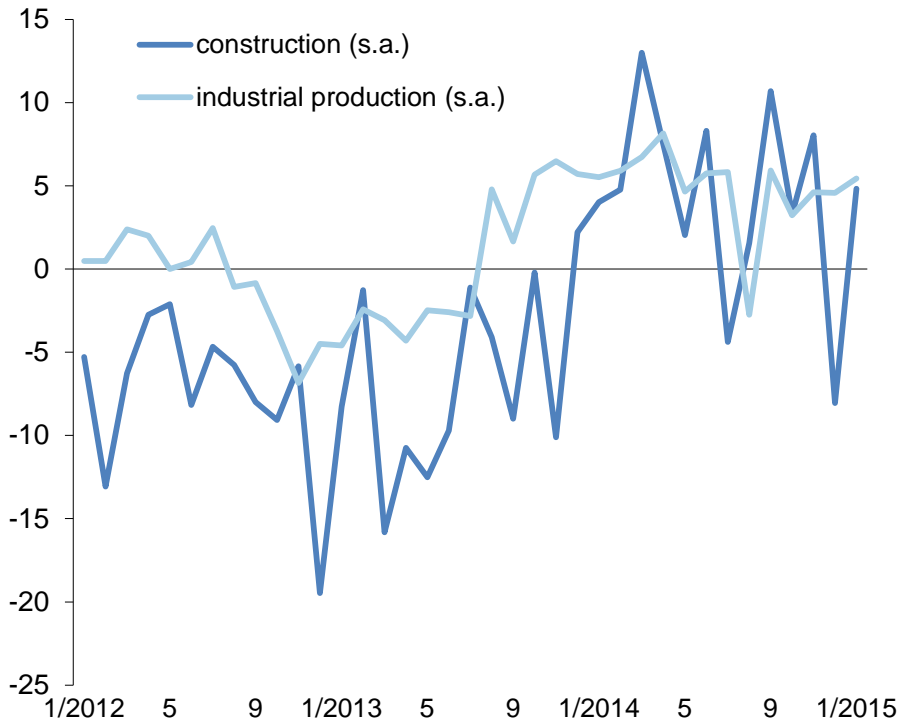
(in %, seasonally adjusted)



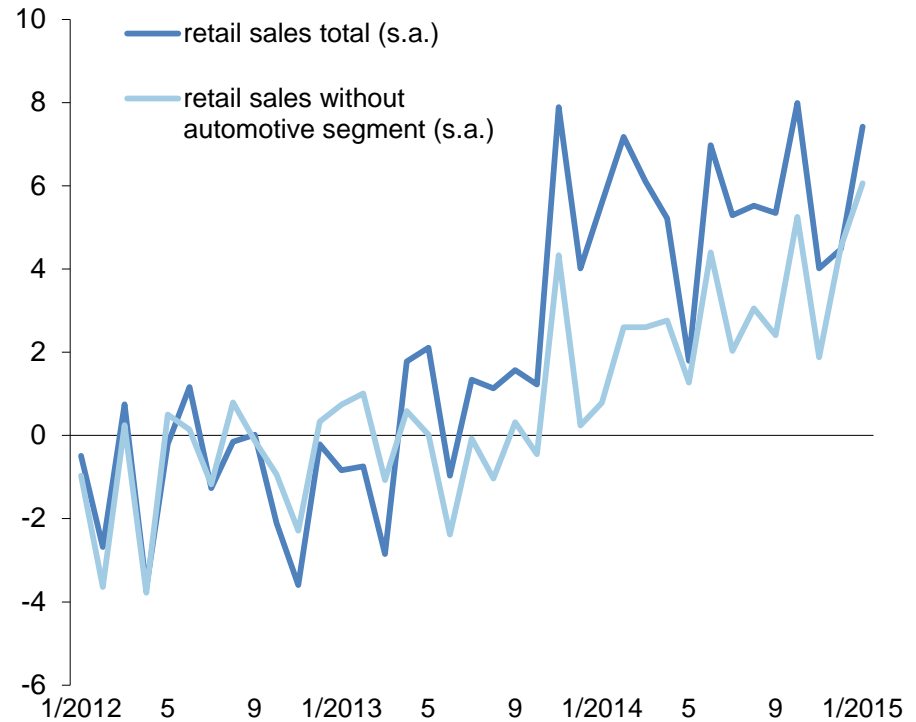


# Industry, construction, retail sales

(Annual changes in %, s.a.)

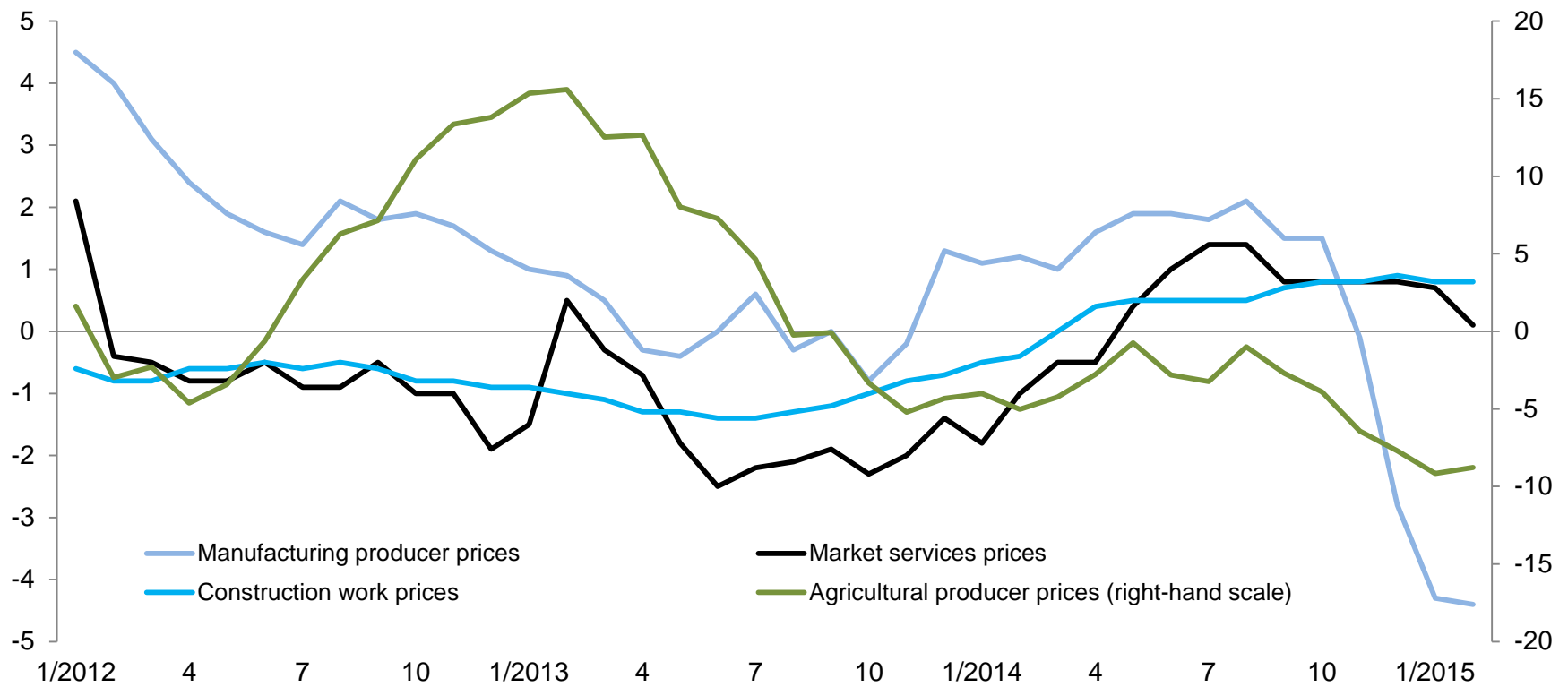


(Annual changes in %, s.a.)

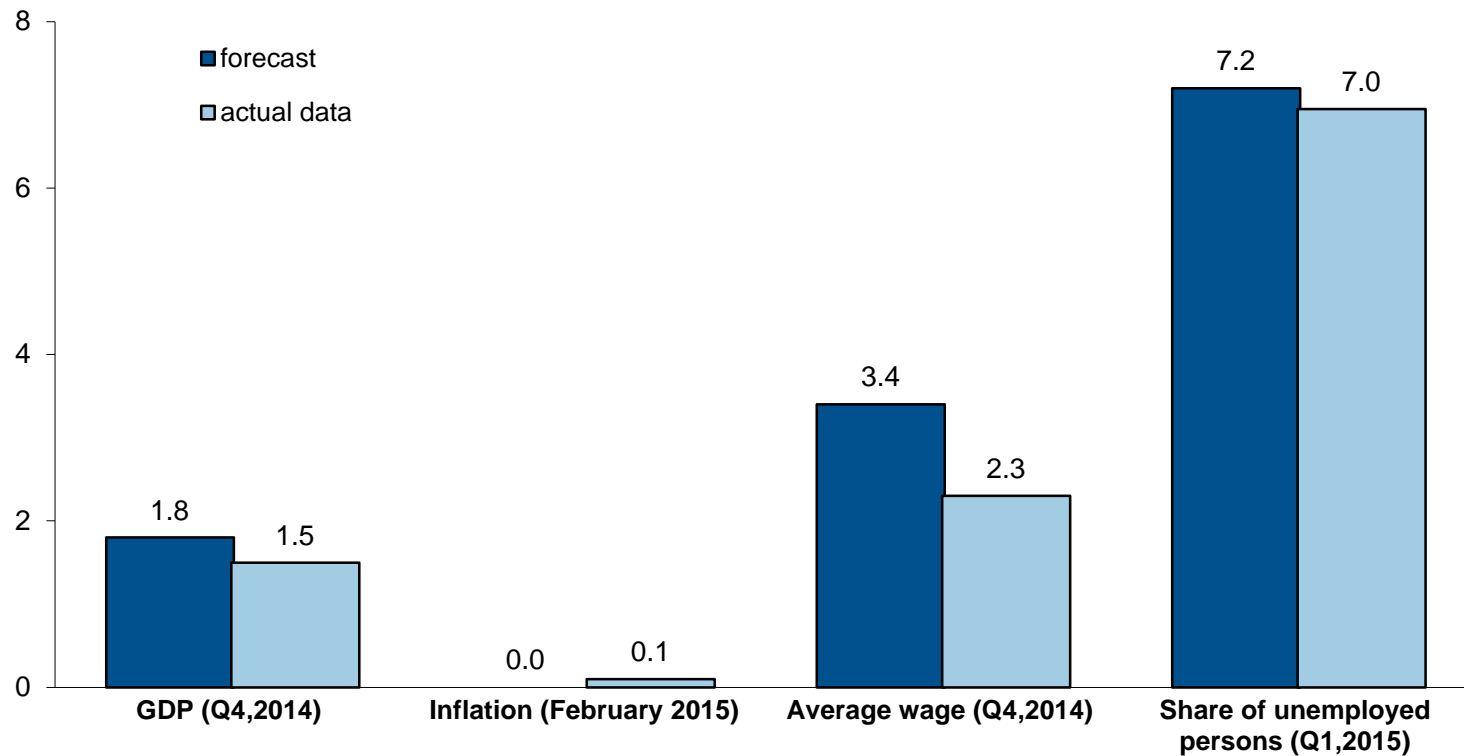


# Producer prices

(Annual changes in %)



# Comparison of actual data with the CNB forecast



Notes: Annual changes in %, for the share of unemployed persons in %, comparison of s.a. outcomes in January and February with the forecast for 2015 Q1

# Risks to the forecast

The risks to the current forecast are anti-inflationary

*Risks in this direction:*

- slower wage growth
- stronger koruna vis-à-vis the euro



# Thank you for your attention

Minutes of the today's meeting will be released on 3 April 2015 at

[http://www.cnb.cz/en/monetary\\_policy/bank\\_board\\_minutes/](http://www.cnb.cz/en/monetary_policy/bank_board_minutes/)